EXHIBIT 4
DATE 3/30/2011
SB 328

SB328 – DC Plan
2011 Legislative Session
House State Administration
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Montana Public Employee Retirement Administration

Senate Bill No. 328 – Require PERS New Hires to be in Defined Contribution Plan

- **Closing PERS Defined Benefit plan will not reduce the plan's unfunded actuarial liability (UAL).**

- **Basic Funding Equation**

  B = C + I – E

  B = Benefits
  C = Contributions
  I = Income
  E = Expenses

- Cost to provide the benefit is based on a % of salary of each employee. The cost in defined benefit plans is called "normal cost". Today the PERS-DB plan's normal cost is 12.61%. HB122, the PER Board's funding bill further reduces normal cost to 9.59%. SB328 increases normal cost in the Defined Contribution Plan to 13.76%.

- In defined benefit plans a portion of the employer contributions contributed on behalf of each employee is used to pay off unfunded liability. Closing PERS reduces each year the amount of employer contributions coming in to pay the unfunded liability.
  - 2010 Annualized Payroll $1.1 billion
  - 2010 % used 1.42% $15.6 million per year
  - HB122 reduces normal cost to 9.59%. If normal cost was 9.59% today then a total of $48.8 million would be applied to the unfunded liability. That is an additional $33.2 million.

❖ Compare Apples to Apples – Comparing Normal Cost

Public Employees Retirement System
Cost to Provide The Benefit
DB and DC

	Current DB	Current DC	SB328
Employee	6.90%	6.90%	6.90%
Employer			
Members Account		4.19%	6.56%
Long Term Disability Plan		0.30%	0.30%
To Pay Normal Cost	5.71%		
Normal Cost of Plan	12.61%	11.39%	13.76%
Plan Choice Rate		2.37%	0
Plan Choice Rate		0.27%	0.27%
Education Fund	0.04%	0.04%	0.04%
To Pay Unfunded Liability	1.42%		
	14.07%	14.07%	14.07%

❖ **Plan Choice Rate** – is a mechanism to allow the 529 employers to continue to pay their unfunded liability obligation to the DB plan. The legislature had three choices to pay this obligation when the DC plan was enacted.

- Have the state pay the obligation.
- Increase employer contributions so the employer would pay the obligation.
- Decrease the amount of employer contributions to the members account to pay the obligation.

The legislature chose the last option. As of June 30, 2010 there continues to be $14.8 million dollars the employers owe to the defined benefit plan.

❖ Investment Return Assumption

- Experience Study performed in 2010. It looks at both Economic and Demographic Assumptions. Based on the review and looking at PERS's asset mix the assumed Investment Rate of Return was set at 7.75%

- Average Investment Rate of Return over the last 30 years has been 8.54%
- Asset/Liability Study just performed on TRS. Based on their Asset mix they could conceivably receive a 7.93% return.
- Last Years' investment rate of return was 12.87%
- Some say the Investment Assumption should be as low as 4%. The experience of the PERS system doesn't show that. With SB328 the Investment Assumption will need to be analyzed. Your negative cash flow will increase due to the closing of the plan and your need to have more cash equivalent securities will increase to pay pension benefit obligations.

❖ **What about other states**

- The state of Utah after a 2 year study went with a Hybrid system. Utah initially wanted to go to a DC plan for new hires. They went with a new "tier" to ensure that funding continued for the DB plan. Utah also realized that contributions needed to be increased to pay the Actuarial Required Contribution (ARC).
- The state of Michigan in 1997 closed their Defined Benefit Plan and new hires went into a DC. They currently paying an additional 16% of compensation to pay the unfunded liability in the DB plan.

❖ **Closing the current plan has a detrimental impact on the PERS-DB funding:**

- Payroll decreases from \$1.15B to \$0.31B in 2030
- Funding status plummets from 74% today to 7% in 2030
- Actuarial Accrued Liability increases from \$5.24B to \$8.65B in 2030
- Annual required contributions (ARC) increases from 22.3% today to 223.5% in 2030

- **The fund will run out of money; creating a much deeper hole than we are in today. <Handout – Assets vs. Liabilities>**

❖ Level dollar amortization vs open amortization . The current method of calculating the amortization payment will need to be changed to reflect a closed system which will require significant contribution rate increases.

Fiscal Note

Assumptions (page 3)

16. DC plan forfeitures are eliminated, therefore, requiring increased fees for participants and providing less money to member accounts.

28. The fiscal note assumes a 30 year amortization period – however the PER Board would make the recommendation and it could be a lower amount.

Technical Notes (page 6)

3. The Disability trust fund in the PERS-DC plan will not be sufficient over time.

❖ The PERS-DB plan must continue to operate until that last new hire retires dies and the new hire's beneficiary dies. This could be 75 years into the future.

❖ The Public Employees' Retirement Board respectfully recommends a "Do NOT Pass" on SB 328.